



Executive Summary, 2022-SR-B-017, December 7, 2022

The Board Can Enhance Certain Governance Processes Related to Reviewing and Approving Supervisory Proposals

Findings

The Board of Governors of the Federal Reserve System can enhance certain governance processes related to reviewing and approving supervisory proposals. We determined that the Board used varying approaches for informing and consulting Board members about planned Supervision and Regulation Letters (SR Letters). By enhancing the processes for these activities and developing guidance on how to document those consultations, the Board may enhance its ability to obtain Board member input on planned SR Letters. We also determined that the Board's approach for soliciting public feedback on these proposals is not clearly defined. We acknowledge that varying factors affect the Board's decision to solicit public comment on an SR Letter. However, establishing a framework for determining when and how to solicit public comment may provide Board officials and staff with a more consistent approach to making this decision and enhance the Board's ability to obtain input from the public when it chooses to do so.

Further, the Board can clarify how delegated actions related to stress testing proposals will be handled in the absence of a Committee on Supervision and Regulation (CSR) chair or a vice chair for supervision and how some of the Board's operations should be executed in the absence of a vice chair for supervision. Although the Board has developed interim guidance on these matters, updating the delegations of authority related to stress testing proposals and the CSR's governing documents will better position the Board to handle transitions between senior leadership. In addition, we believe the Board should document certain activities conducted by the CSR. Recording the CSR's guidance and concurrence on supervision and regulation matters will increase the transparency and overall effectiveness of the committee's activities.

Finally, the agency can clarify certain information posted to its public website regarding Board of Governors votes. Enhancing the clarity of this information could increase the public's understanding of the agency's actions.

Recommendations

Our report contains recommendations designed to enhance the effectiveness of the Board's processes and practices for reviewing and approving supervisory proposals. In its response to our draft report, the Board concurs with our recommendations and outlines actions to address each recommendation. We will follow up to ensure that the recommendations are fully addressed.

Purpose

We conducted this evaluation to assess the effectiveness of the Board's processes and practices for reviewing and approving supervisory proposals. The scope of our evaluation included SR Letters issued from January 1, 2019, through June 30, 2021, and stress testing scenarios and results issued from January 1, 2020, through June 30, 2021.

Background

The Board develops and implements policies, guidance, and programs, including SR Letters and stress testing. *SR Letters* are guidance documents addressing significant supervision policy and procedural matters. Through its stress testing program, the Board develops hypothetical scenarios and evaluates the resilience of large banks by estimating their losses, revenues, expenses, and resulting capital levels under those scenarios.

Organizational governance involves processes and structures for decisionmaking, accountability, controls, and behaviors designed to accomplish an organization's objectives. The agency has established processes and structures that may be used by Board members to review and approve supervisory proposals, including Board of Governors votes and standing committees such as the CSR, which is chaired by the vice chair for supervision.